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TOROMONT **INDUSTRIES LTD.**

ANNUAL REPORT 1978

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Industrial Refrigeration

CIMCO Limited
Allen Tank Limited
Allen Tank (London) Limited
Lewis Refrigeration Co.
Aero Tech Mfg., Inc.

Engineered Products

Canada Forgings,
a Division of Toromont Industries Ltd.
El-Met-Paris
Division of Toromont Industries Ltd.

Building Products

F. B. McFarren, Limited

Head Office

65 Villiers Street
Toronto, Ontario
M5A 3S1

Auditors

Touche Ross & Co.
Chartered Accountants

Bankers

The Mercantile Bank of Canada, Toronto
The Toronto-Dominion Bank, Toronto

Common Shares

Listed on
The Toronto Stock Exchange
Montreal Stock Exchange

Transfer Agent and Registrar

Crown Trust Co.
Toronto and Montreal

TOROMONT
INDUSTRIES LTD.

**INTERIM REPORT
TO SHAREHOLDERS
SIX MONTHS ENDED JUNE 30, 1978**

To The Shareholders

For the first six months of 1978, our sales were \$30,153,000, as compared with \$27,635,000 for the prior year. Net earnings from continuing operations before extraordinary item were \$700,000 or 22.9¢ per share vs. \$497,000 or 16.2¢ last year. Net earnings for the period were \$991,000 or 32.4¢ per share, including \$291,000 or 9.5¢ per share extraordinary gain on the sale of property. Most of this gain resulted from the disposal of our industrial refrigeration facilities at Woodinville, Washington.

The improvement in operations was in part due to the continued strong recovery in our U.S. industrial refrigeration operations. Our new 60,000 square foot manufacturing plant in Salt Lake City, Utah will become operational in September. The new plant will consolidate production of industrial refrigeration products, proprietary printing products and conveying containers for automated warehousing systems. We expect that the new facility will result in considerable improvement in operating efficiencies as it will replace manufacturing operations previously done in three separate locations.

While economic conditions in Canada remain unsatisfactory with high inflation and slow real growth, we expect continued improvement in Toromont's profits. We are particularly encouraged by developments in our forging division, which is in the process of starting up its new ring rolling mill. We expect these facilities will contribute importantly to the growth of our profits beginning next year. For the longer term, we are optimistic about Toromont's prospects as we believe the company is well positioned to serve the growing world markets for food and energy products. In view of the favourable outlook, the Board of Directors increased the semi-annual dividend from 5¢ to 7.5¢ per share and the increased dividend was paid in July.

S. J. Sinclair
Chairman of the Board

August 21, 1978

TOROMONT INDUSTRIES LTD. and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS for the Six Months ended June 30, 1978 (with comparative figures for 1977)

	000's	
UNAUDITED	1978	1977
Sales:		
Industrial refrigeration	\$18,505	\$16,107
Engineered products	10,943	10,856
Building products	705	672
	<u>\$30,153</u>	<u>\$27,635</u>
Earnings before unreported items	\$ 1,334	\$ 895
Provision for income taxes	633	397
Minority interest in earnings of subsidiary company	1	1
Net earnings from continuing operations	700	497
Loss on sale of subsidiary (note 1)	—	(221)
Net earnings from discontinued operations (note 1)	—	34
Net earnings before extraordinary item	700	310
Extraordinary item (note 2)	291	—
Net earnings for the period	991	310
Retained earnings beginning of period	5,612	4,517
Dividends declared	(383)	(153)
Retained earnings end of period	<u>\$ 6,220</u>	<u>\$ 4,674</u>
Earnings per share: (note 3)		
From continuing operations	22.9¢	16.2¢
From discontinued operations	—	1.1
Net earnings	—	(7.2)
Loss on sale of subsidiary	22.9	10.1
Before extraordinary item	9.5	—
From extraordinary item	<u>32.4¢</u>	<u>10.1¢</u>

Notes:

- The company sold its subsidiary, Viking Pump Company of Canada, Limited in 1977. The financial statements give effect to this transaction and exclude the operating results of this subsidiary from sales and from earnings from continuing operations.
- Extraordinary item:
Gain on sale of property \$401,000
Income taxes 110,000
\$291,000
- Based on 3,061,469 shares outstanding.

TOROMONT INDUSTRIES LTD. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the Six Months ended June 30, 1978 (with comparative figures for 1977)

	000's	
UNAUDITED	1978	1977
Source of funds:		
From operations:		
Net earnings for the period	\$ 991	\$ 310
Adjustments for changes not involving funds:		
Depreciation and amortization	431	388
Deferred income taxes	56	27
Gain on sale of property	(401)	—
	<u>1,077</u>	<u>725</u>
Proceeds from sale of subsidiary:		
Net proceeds from sale	—	1,000
Working capital reduction	—	(492)
Proceeds from sale of property	724	—
Decrease in notes receivable and other assets	108	—
Increase in long term debt	—	49
Goodwill written down	160	—
Sundry items	—	(98)
Increase in unrealized gain on foreign exchange	10	—
	<u>2,079</u>	<u>1,184</u>
Application of funds:		
Additions to fixed assets	1,753	416
Dividends declared	383	153
Increase in notes receivable	—	320
Decrease in long term debt	202	—
Acquisition of subsidiary:		
Cost of shares	—	661
Working capital acquired	—	(361)
	<u>2,338</u>	<u>1,189</u>
Increase (decrease) in working capital	(259)	(5)
Working capital beginning of period	8,376	6,900
Working capital end of period	<u>\$ 8,117</u>	<u>\$ 6,895</u>

TOROMONT INDUSTRIES LTD.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Toromont Industries Ltd. (the "Corporation") will be held in Tudor Rooms 8 and 9, Royal York Hotel, Toronto, Ontario, on the 26th day of May, 1978 at the hour of 11:00 a.m., for the following purposes:

- (a) To receive the report of the directors and the consolidated financial statements of the Corporation and its subsidiary companies for the fiscal year ended December 31, 1977, together with the report of the auditors thereon;
- (b) To elect directors;
- (c) To appoint auditors and authorize the directors to fix their remuneration;
- (d) To consider, and if thought fit, to confirm with or without variation By-Law No. 21, being a by-law making a majority of the directors in office a quorum for the transaction of business by the board of directors; and,
- (e) To transact such other business as may properly come before the meeting or any adjournment thereof.

DATED at Toronto, Ontario, this 28th day of April, 1978.

By order of the Board of Directors
A. L. Fagan, Jr.
Secretary

If you are unable to attend the meeting in person, please date and sign the enclosed form of proxy and return it in the envelope provided for that purpose.

TOROMONT INDUSTRIES LTD.

MANAGEMENT PROXY CIRCULAR

SOLICITATION OF PROXIES

This management proxy circular is furnished in connection with the solicitation of proxies by the management of Toromont Industries Ltd. (the "Corporation") for use at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the accompanying notice of meeting. The solicitation will be primarily by mail, but proxies may also be solicited personally by regular employees of the Corporation. The cost of the solicitation by management will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Corporation. **A shareholder desiring to appoint some other person to represent him at the meeting may do so by** inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Corporation at the registered office of the Corporation, 65 Villiers Street, Toronto, Ontario, at least 48 hours (excluding Saturdays and holidays) before the time of the meeting.

A shareholder who has given a proxy may revoke it, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by an instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote for or vote against or withhold from voting the shares represented by properly executed proxies in accordance with the instructions contained therein. **In the absence of instructions such shares will be voted for the election of directors, the appointment of auditors and the confirmation of By-Law No. 21 as stated under those headings in this circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to such other matters which may properly come before the meeting. At the time of printing this circular the management of the Corporation knows of no such amendments, variations or other matters to come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has 3,061,469 common shares outstanding and each of such shares carries the right to one vote at the meeting. To the knowledge of the directors and officers of the Corporation, no person beneficially owns or exercises control or direction over shares carrying more than 10% of the votes attached to the shares of the Corporation except as stated below.

Mr. S. J. Sinclair, a director and officer of the Corporation, now holds 1,237,257 common shares of the Corporation representing 40.4% of the outstanding common shares. At December 31, 1977, Mr. Sinclair held 569,257 common shares representing 18.6% of the outstanding common shares. On January 6, 1978, he purchased 405,000 common shares from Glaser Bros. at a price of \$3.52 per share. On April 28, 1978, he purchased 263,000 common shares from Mr. R. A. Scoon at a price of \$3.25 per share.

GBC Capital Limited holds a total of 611,000 common shares of the Corporation representing 20.0% of the outstanding common shares. Mr. N. B. Ivory, a director of the Corporation, is an officer and director of GBC Capital Limited.

The only persons entitled to vote at the meeting or to be represented thereat by proxy will be shareholders of record at the close of business on May 4, 1978.

ELECTION OF DIRECTORS

The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are listed below, all of whom, with the exception of Messrs. Fraser, Maase and Pitfield, are now members of the board of directors and have been since the date indicated. The management of the Corporation does not contemplate that any such nominee will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote in their discretion for other nominees as directors. Each director elected will hold office until the next annual meeting and until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws.

The following table sets out the name of each person proposed to be nominated by management for election as a director of the Corporation; all other major positions and offices in the Corporation or any of its significant affiliates now held by him; his principal occupation or employment now and for the preceding five years in the case of new nominees; the year in which he was first elected a director; and the approximate number of common shares of the Corporation that he has advised are beneficially owned by him or over which control or direction is exercised by him.

	Year first became a director	Approximate number of common shares
R. G. Bremner is Chairman of the Board of Acadia Forest Products Limited and a director of CIMCO Limited (subsidiary of the Corporation), Allen Tank Limited and Allen Tank (London) Limited (subsidiaries of CIMCO Limited)	1976	49,200
P. F. Fenton, Jr. is Chairman of the Division of Business Administration, Bishop's University	1973	900
J. W. Fraser is President of Canada Forgings, a Division of Toromont Industries Ltd. (formerly Canada Forgings Limited)	—	300
N. B. Ivory is President of Pembroke Management Ltd. (investment management company)	1974	100
N. J. Lucas is President, Chief Executive Officer and a director of CIMCO Limited (subsidiary of the Corporation), Allen Tank Limited and Allen Tank (London) Limited (subsidiaries of CIMCO Limited) and a director of Lewis Refrigeration Co. (subsidiary of the Corporation) and Aero Tech Mfg., Inc. (subsidiary of Lewis Refrigeration Co.)	1976	40,000
C. A. Maase is President of Maase Corporation Limited (holding company)	—	33,190
W. A. McKenzie is President of Admac Holdings Limited (private investment company)	1973	55,000
W. C. Pitfield is President of Pitfield Mackay Ross Limited (investment dealers)	—	—
S. J. Sinclair is Chairman of the Board and Chief Executive Officer of the Corporation, Chairman of the Board of Lewis Refrigeration Co. (subsidiary of the Corporation), and a director of CIMCO Limited, F. B. McFarren, Limited (subsidiaries of the Corporation), Allen Tank Limited, Allen Tank (London) Limited (subsidiaries of CIMCO Limited) and Aero Tech Mfg., Inc. (subsidiary of Lewis Refrigeration Co.)	1969	1,237,257

DIRECTORS' AND OFFICERS' REMUNERATION AND EXPENSES FOR 1977

	NATURE OF REMUNERATION EARNED					
	Directors' fees	Salaries	Bonuses	Non-accountable expense allowances	Other	Total
REMUNERATION OF DIRECTORS (note 1)	\$43,500	nil	nil	nil	\$32,500	\$76,000
Number of Directors: 11						
REMUNERATION OF OFFICERS (note 2)	nil	\$256,579	\$13,500	nil	nil	270,079
Number of Officers: 3						
TOTALS	\$43,500	\$256,579	\$13,500	nil	\$32,500	\$346,079

Note 1: Aggregate remuneration paid to directors as directors, except for "Other" which comprised consulting fees.

Note 2: Aggregate remuneration paid to officers as officers.

The estimated aggregate cost to the Corporation and its subsidiaries during the financial year ended December 31, 1977 of all benefits proposed to be paid to the directors and officers of the Corporation under any pension or retirement plan upon retirement at normal retirement age was \$54,369.

INCENTIVE STOCK PURCHASE PLAN

As of the date hereof, the following persons are indebted to the Corporation on account of interest-free loans made in accordance with the Incentive Stock Purchase Plan of the Corporation:

Name of Officer	Outstanding Amount	
	Largest Aggregate Amount Since January 1, 1977	Present Balance
S. J. Sinclair	\$190,620	\$166,770
A. L. Fagan, Jr.	34,898	33,840
N. J. Lucas	42,998	35,438

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides directors' and officers' liability insurance with a policy limit of \$5,000,000 per year subject to a deductible of \$20,000 per occurrence and 5% of the amount of each loss in excess of \$20,000. Under this insurance coverage the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its directors and officers and individual directors and officers are reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Corporation. The portion of the premiums allocated to the fiscal year ended December 31, 1977 was \$8,788, all of which was paid by the Corporation.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the appointment of Messrs. Touche Ross & Co., Chartered Accountants, Toronto, Ontario, who have been auditors of the Corporation for more than five years, as auditors of the Corporation to hold office until the next annual meeting of shareholders.

CONFIRMATION OF BY-LAW NO. 21

The meeting will be asked to consider and, if thought fit, to confirm with or without variation By-Law No. 21 of the Corporation passed by the directors on November 21, 1977.

By-Law No. 21 will not become effective until it has been confirmed by a majority of the votes cast at the meeting.

BY-LAW NO. 21

BE IT AND IT IS HEREBY ENACTED AS A BY-LAW OF TOROMONT INDUSTRIES LTD. AS FOLLOWS:
SUBJECT TO SECTION 4.08 OF BY-LAW NO. 20, A QUORUM FOR THE TRANSACTION OF BUSINESS AT ANY MEETING OF THE BOARD OF DIRECTORS SHALL CONSIST OF A MAJORITY OF THE DIRECTORS THEN IN OFFICE.

DIRECTORS' APPROVAL

The contents and the sending of this circular have been approved by the directors of the Corporation.

Dated as of April 28, 1978.

A. L. Fagan, Jr.
Secretary

FINANCIAL HIGHLIGHTS

	1978	1977
Sales		
Industrial Refrigeration	\$37,705,000	\$37,565,000
Engineered Products	22,074,000	20,121,000
Building Products	—	1,792,000
	59,779,000	59,478,000
Net Earnings from Continuing Operations	1,808,000	1,572,000
Extraordinary Item		
Gain on Sale of Property	312,000	—
Discontinued Subsidiary Operations		
Net Earnings	61,000	34,000
Gain (Loss) on Sale of Subsidiary	2,020,000	(205,000)
Net Earnings for the Year	4,201,000	1,401,000
Per Share of Common Stock		
Earnings from Continuing Operations	\$0.59	\$0.52
Extraordinary Item		
Gain on Sale of Property	.10	—
From Discontinued Operations		
Net Earnings	.02	.01
Gain (Loss) on Sale of Subsidiary	.66	(.07)
Net Earnings	\$1.37	\$0.46
Dividends	\$0.20	\$0.10
Equity	\$4.66	\$3.51
Working Capital	\$11,158,000	\$ 8,376,000
Return on Common Shareholders' Equity	16.8%	16.3%

Toromont has manufacturing operations in Canada and the United States and sells to international markets. Major areas of operation are industrial refrigeration and engineered products, including forgings, steel laminations and wound electrical cores.

The Annual Meeting of the Shareholders of the Corporation will be held in Wellesley Hall, Salon A of The Sutton Place Hotel, Toronto, at 11:00 a.m. on June 1, 1979.

TOROMONT

INDUSTRIES LTD.

Head Office: Toronto, Canada
Phone (416) 465-3518

TO OUR SHAREHOLDERS

In 1978, Toromont made progress in three important areas:

1. Earnings from continuing operations increased by 15%;
2. We continued a program of rationalizing our operations by disposing of a marginal subsidiary for a large capital gain, freeing resources for our major activities;
3. A significant improvement in our financial position was effected.

THE RECORD

In 1978, Toromont's sales were \$59,779,000, net earnings from continuing operations were \$1,808,000 or 59¢ per share and net earnings after special items were \$4,201,000 or \$1.37 per share. Special items included a gain on the sale of a subsidiary, F. B. McFarren, Limited, of \$2,020,000 or 66¢ per share. Comparative figures for 1977 were sales of \$59,478,000, net earnings from continuing operations of \$1,572,000 or 52¢ per share and net earnings after special items of \$1,401,000 or 46¢ per share. At December 31, 1978, book value per common share was \$4.66, an increase of 33% over 1977.

HIGHLIGHTS

Sale of McFarren

On April 2, 1979, the company completed the sale of its brick manufacturing subsidiary, F. B. McFarren, Limited, to Canada Brick Company Limited for a cash consideration of \$3,100,000, pursuant to an agreement dated December 1, 1978. This transaction resulted in a net capital gain to Toromont of \$2,020,000, which is reflected in these financial statements.

This subsidiary had been contributing only marginally to our profits and its sale has significantly improved our balance sheet. Primarily as a result of the McFarren transaction, working capital increased by \$2.8 million in 1978 to a year end figure of \$11.2 million.

Forging Division

1978 was a year of solid progress for the Canada Forgings Division. Our management resources were strengthened, our equipment facilities were substantially improved, including the start-up of our new ring rolling facilities, and our technical assistance and marketing agreement with Standard Steel was fully implemented. Our backlog of orders is now at record levels and we are confident that this division is positioned for several years of significant growth. In addition, our company is in a favourable position to capitalize on the opportunities which will result from the Canadian fighter aircraft program, the Foothills Pipeline and other large natural resource projects.

Salt Lake City Plant

In September 1978, our new 60,000 square foot manufacturing facility in Salt Lake City, Utah was

completed. This plant is now fully operational and consolidates production of our industrial refrigeration products, proprietary printing products and conveying containers for automated warehousing systems. These products were formerly manufactured in three separate locations. Our investment in Salt Lake City provides us with a well-equipped facility, strategically located to serve our major market areas.

CAPITAL EXPENDITURES

Capital expenditures in 1978 amounted to \$3,154,000 as compared with \$1,421,000 in 1977. Of this amount, \$1.5 million was expended on the new plant in Salt Lake City and \$900,000 on new forging facilities. The company's present plans call for capital expenditures to decline by a third in 1979. The bulk of the current year's expenditures will be to complete our ring rolling facilities, at a total cost of more than \$3 million.

DIVIDENDS

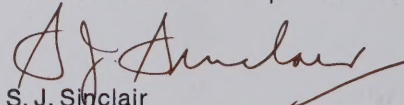
In view of the company's progress, your Board of Directors increased the regular annual dividend from 10¢ to 15¢ payable semi-annually. This increased rate commenced with the July 1978 dividend.

LOOKING AHEAD

In Canada and Europe, the outlook for our basic businesses of industrial refrigeration and engineered products is favourable and we expect these operations to show improved earnings this year.

However, in the U.S., the market segments of industrial refrigeration which we serve have not, in our case, shown the expected levels of activity. This disappointing trend is occurring at a time when we are making significant expenditures to develop new products and to penetrate market segments where we have not previously offered products or services. We expect, therefore, that the earnings of this operation will decline significantly this year. This decline may offset the gains in the balance of our operations, so overall, our earnings for 1979 may not increase.

Over the longer term, we are optimistic about our market position for industrial freezing systems and expect that the current investments for new products, while penalizing earnings this year, will make major contributions to profits in future years. On behalf of your Board of Directors, I would like to extend sincere thanks and appreciation to our customers, suppliers, employees and shareholders who contributed to our performance in 1978.



S. J. Sinclair

Chairman of the Board & Chief Executive Officer
April 26, 1979

TOROMONT

INDUSTRIES LTD.

and subsidiaries

REVIEW OF OPERATIONS

INDUSTRIAL REFRIGERATION

CIMCO Limited

Dartmouth, Nova Scotia
Quebec, Quebec
Montreal, Quebec
Ottawa, Ontario
Toronto, Ontario
London, Ontario
Winnipeg, Manitoba
Regina, Saskatchewan
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

Allen Tank Limited

Scarborough, Ontario

Allen Tank (London) Limited

London, Ontario

Lewis Refrigeration Co.

Malden, Massachusetts
Chicago, Illinois
Houston, Texas
Redmond, Washington
Norwich, England

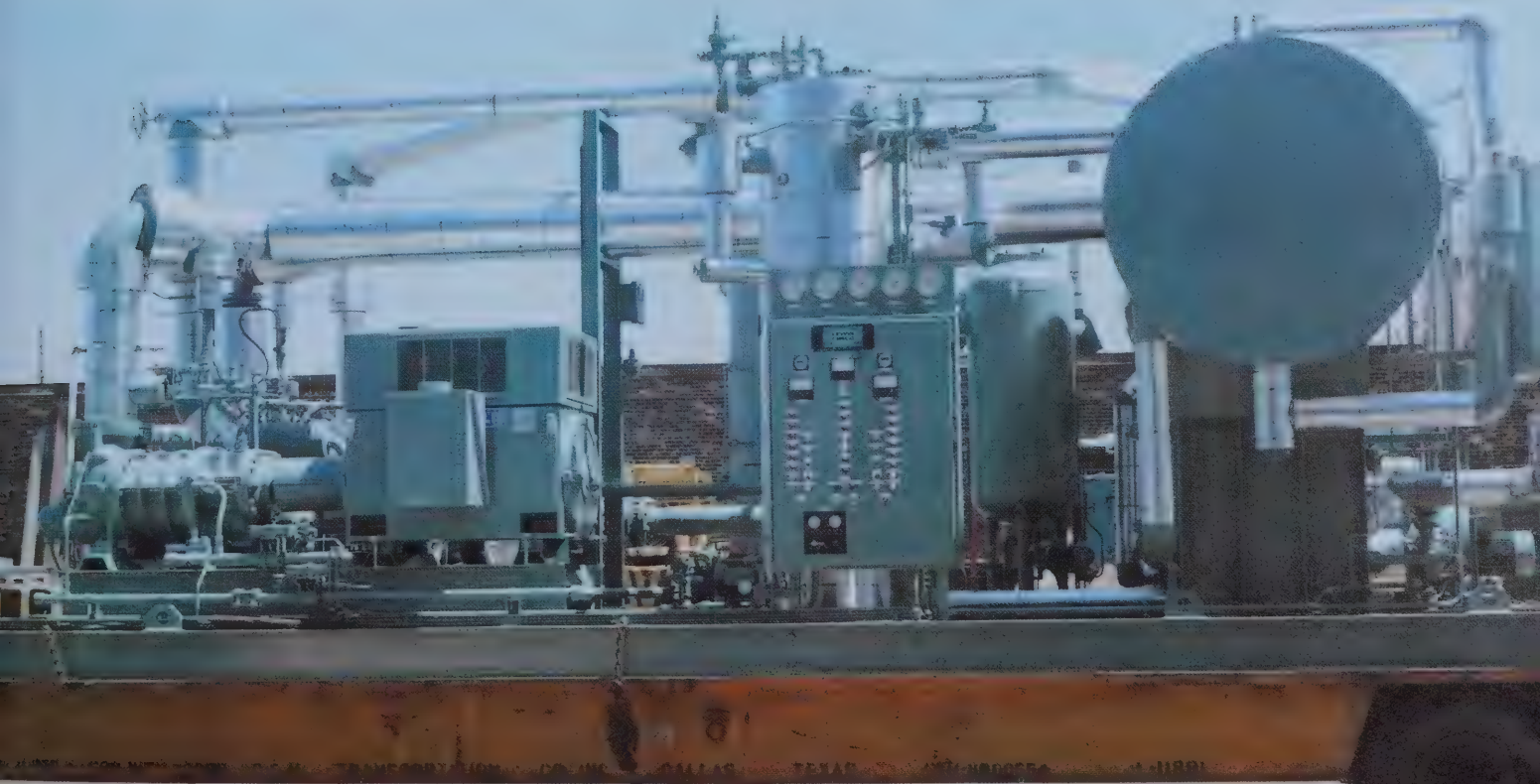
Aero Tech Mfg., Inc.

North Salt Lake, Utah



Fifty ton stainless steel tower manufactured by Allen Tank Limited for LNG operation in Algeria.

Lewis CIMCO Unipak for Ammonia recovery sold to a major textile company to be used in the production of all-cotton, permanently pressed dress shirts.





Above: Interior view of the new Aero Tech plant.

Below: Aero Tech's new 60,000 square foot manufacturing plant in North Salt Lake.

Toromont's industrial refrigeration operations specialize in the design, manufacture, installation and servicing of refrigeration systems for the food processing, petrochemical and recreational industries. The company's Canadian subsidiary, CIMCO, is the leader in its markets, the most important of which have been refrigeration systems for the processing and storage of food and beverages and ice rinks. Toromont's U.S. subsidiary, Lewis Refrigeration Co., has been a pioneer and leader in I.Q.F. (Individually Quick Frozen) systems for food processing and also serves the food storage and petrochemical markets. Lewis recently introduced a line of spiral long retention freezers for the food industry and in addition, a new concept freezer primarily for the fishing industry called a "Jet-Flow" freezer.



Overall, industrial refrigeration operations both in Canada and the U.S. showed only moderate growth in earnings in 1978. We expect significant growth in 1979 in Canada and Europe where we enjoy a strong backlog position. However, our U.S. operations will be down this year and this could result in a decline in our total refrigeration earnings.

Aero Tech Mfg., Inc., our U.S. manufacturing arm located near Salt Lake City, Utah had a satisfactory year in 1978. Currently, we are experiencing a high demand for our proprietary processors for photopolymer printing plates and are seeing considerable activity for sheet metal jobbing work. Increased efficiency in operations is expected by the consolidation of production into a new 60,000 square foot plant.

Allen Tank Limited, a manufacturer of pressure vessels, had excellent sales and profits in 1978, due primarily to large export orders for Algeria. However, market conditions are now very weak in this industry and we expect the company's results this year will be significantly lower. The long range outlook for the company, however, is good and business should pick up significantly as large energy projects in Canada are started.



*Computer controlled operator desk at 600 ton press.
(CanForge)*

ENGINEERED PRODUCTS

**Canada Forgings, a Division of
Toromont Industries Ltd.**
Welland, Ontario

**EI-Met-Parts Division of
Toromont Industries Ltd.**
Dundas, Ontario

Our forging division, CanForge, operates two plants, both in Welland, Ontario. The heavy forge plant produces forgings up to twenty tons from equipment which includes three forging presses, two steam hammers and the only ring rolling facilities in Canada. This division recently installed a Wagner 100/80 radial axial ring rolling mill. Products include rolled rings and flanges, end fittings, large shafts and hooks. The drop forge plant produces forgings up to 150 pounds on equipment which includes steam and board drop

hammers ranging from 1,200 to 10,000 pounds. Products include truck parts, aircraft components, valve bodies and fittings.

Our major marketing effort in forgings has been to the nuclear and other energy-related industries where we have a strong competitive position due to specialized know-how and equipment capabilities.

Profits in CanForge in 1978 were up only slightly from 1977. However, in 1979 and subsequent years, we anticipate substantially increased profits resulting primarily from our investment in new ring rolling facilities.

Toromont's El-Met-Parts Division is Canada's largest independent manufacturer of steel laminations and wound electrical cores for the electrical and electronic industries. These products are basic components of transformers, motors and fluorescent and mercury lighting ballasts.

El-Met had a good year in 1978 and we expect that this division will again increase its profits in 1979.



View of precision slitter for electrical steels at El-Met-Parts.

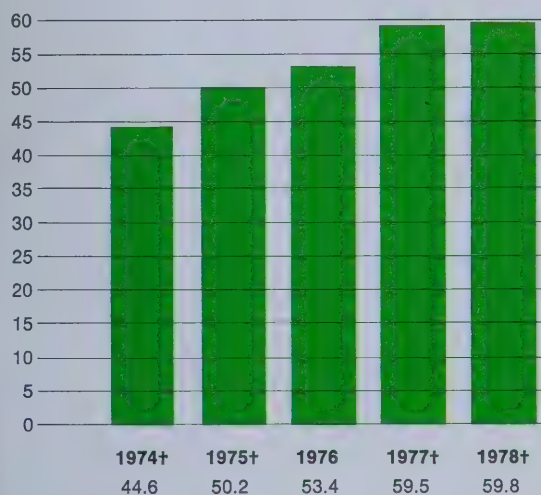


Raw 100/80 radial axial mill producing 75" O.D. Type 321 stainless steel turbine ring. (CanForge)

5 YEAR REVIEW

Total Sales

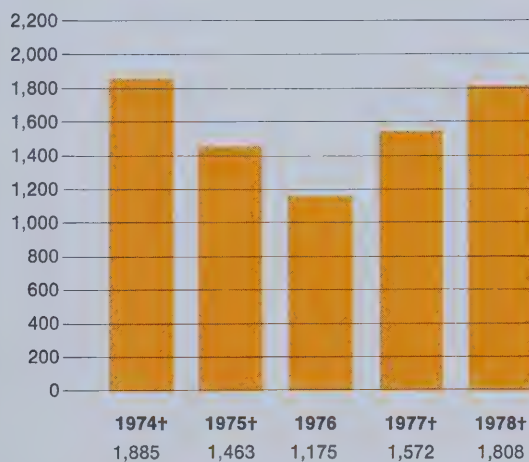
In millions of \$



Net earnings

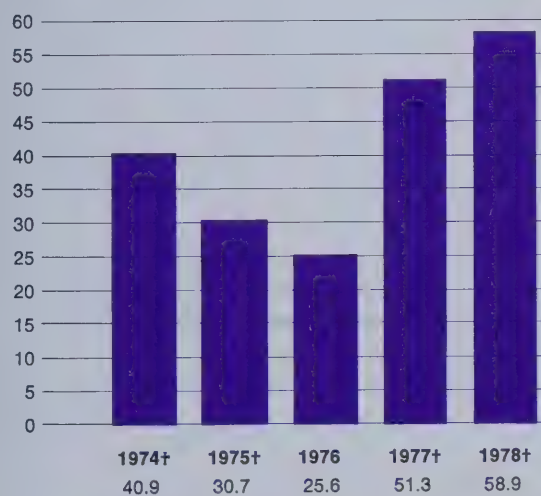
after tax

In thousands of \$ Before extraordinary items



Earnings per common share

cents Before extraordinary items



Net earnings as a percentage of common shareholders' equity

% Before extraordinary items



†From Continuing Operations

CONSOLIDATED BALANCE SHEET

as at December 31, 1978

(with comparative figures for 1977)

	(Thousands of dollars)	
	1978	1977
Assets		
Current		
Cash	\$ —	\$ 1,554
Accounts receivable		
Trade, less allowance for doubtful accounts of \$306 (1977 — \$640)	10,065	10,287
Other	50	391
Receivable on sale of subsidiary company, net (Note 12)	3,009	—
Inventories (Note 2)	9,880	7,308
Notes receivable (Note 3)	150	143
Prepaid expenses	277	320
Deferred income taxes	77	63
	23,508	20,066
Notes receivable and other assets (Note 3)	1,220	1,314
Property, plant and equipment (Note 4)		
Buildings, machinery and equipment	14,915	13,346
Less accumulated depreciation	6,164	6,470
	8,751	6,876
Land	578	393
	9,329	7,269
Goodwill (Note 5)	2,145	2,636
	\$36,202	\$31,285

On behalf of the Board

S. J. Sinclair, Director

R. G. Bremner, Director

See accompanying notes to consolidated financial statements.

TOROMONT

INDUSTRIES LTD.

(Incorporated under the
Canada Business Corporations Act)

	(Thousands of dollars)	
	1978	1977
Liabilities		
Current		
Bank indebtedness, secured	\$ 3,775	\$ 2,318
Accounts payable and accrued liabilities	6,702	7,691
Dividends payable	236	153
Income taxes payable	279	241
Current portion of long-term debt	1,358	1,287
	12,350	11,690
Long-term debt (Note 6)	7,690	7,740
Deferred income taxes	1,271	1,014
Unrealized gain on foreign exchange	250	106
Minority interest in subsidiary company	4	4
	21,565	20,554
Shareholders' Equity		
Capital Stock (Note 7)	5,056	4,733
Contributed surplus	386	386
Retained earnings	9,195	5,612
	14,637	10,731
	\$36,202	\$31,285

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31, 1978
(with comparative figures for 1977)

	(Thousands of dollars)	
	1978	1977
Sales	\$59,779	\$59,478
Costs and expenses		
Cost of products sold and services rendered	49,016	48,576
Selling, general and administrative	6,748	7,560
Interest on long-term debt	796	892
Other interest	418	162
	56,978	57,190
	2,801	2,288
Other income	305	321
Earnings for the year before provision for income taxes	3,106	2,609
Provision for income taxes (Note 8)		
Current	960	817
Deferred	337	218
	1,297	1,035
Earnings from continuing operations before minority interest	1,809	1,574
Minority interest in earnings of subsidiary company	(1)	(2)
Net earnings from continuing operations	1,808	1,572
Extraordinary item		
Gain on sale of property, plant and equipment (net of applicable income taxes of \$114,000)	312	—
Discontinued operations of subsidiary company (Note 12)		
Net earnings	61	34
Gain (loss) on sale	2,020	(205)
	2,393	(171)
Net earnings for the year	\$ 4,201	\$ 1,401
Earnings per common share (Note 9)		
Continuing operations	\$0.59	\$0.52
Extraordinary item	.10	—
Discontinued operations of subsidiary company		
Net earnings	.02	.01
Gain (loss) on sale	.66	(.07)
Net earnings for the year	\$1.37	\$0.46

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1978
(with comparative figures for 1977)

	(Thousands of dollars)	
	1978	1977
Retained earnings at beginning of year	\$ 5,612	\$ 4,517
Net earnings for the year	4,201	1,401
	9,813	5,918
Common dividends, 20c per share (1977 — 10c)	618	306
Retained earnings at end of year	\$ 9,195	\$ 5,612

See accompanying notes to consolidated financial statements.

AUDITOR'S REPORT

The Shareholders,
Toromont Industries Ltd.

We have examined the consolidated balance sheet of Toromont Industries Ltd. as at December 31, 1978 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
March 7, 1979.

Touche Ross & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1978

(with comparative figures for 1977)

	(Thousands of dollars)	
	1978	1977
Source of funds		
Operations		
Net earnings from continuing operations	\$ 1,808	\$ 1,572
Add (deduct) items not requiring use of funds		
Depreciation	789	743
Deferred income taxes	257	200
Goodwill written off	329	467
Loss (gain) on sale of property, plant and equipment	37	(138)
Funds from continuing operations	3,220	2,844
Net earnings from discontinued operations	61	34
Gain (loss) on sale of subsidiary	2,020	(205)
	5,301	2,673
Issuance of capital stock	323	—
Sale of property, plant and equipment less income taxes payable thereon	477	554
Sale of subsidiary company		
Excess of cost over net assets	162	194
Property, plant and equipment	305	143
Unrealized gain on foreign exchange	144	106
Increase in long-term debt, net	—	66
Other	—	1
	6,712	3,737
Application of funds		
Additions to property, plant and equipment	3,154	1,421
Subsidiary company acquired		
Costs in excess of net assets acquired	—	207
Property, plant and equipment acquired	—	110
Dividends	618	306
Increase in notes receivable and other assets	108	217
Decrease in long-term debt, net	50	—
	3,930	2,261
Increase in working capital	2,782	1,476
Working capital at beginning of year	8,376	6,900
Working capital at end of year	\$11,158	\$ 8,376

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1978

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiary companies which, with the exception of CIMCO Limited, are wholly-owned. The Company owns 99.9% and 98.7% respectively of the common and Class "A" shares of CIMCO Limited. All significant inter-company transactions and profits between the Company and its subsidiary companies have been eliminated on consolidation.

Newly acquired subsidiary companies are consolidated from the effective date of their acquisition. The results of operations of subsidiary companies sold during the year are disclosed separately up to the effective date of sale. The gain or loss on disposal is also disclosed separately.

(b) Revenue recognition

Revenues from contracting activities involving design, manufacture and installation of equipment are recorded on the completed contract method based upon substantial technical completion. Any foreseeable losses on contracts are charged to operations at the time they become evident.

Revenues from the sale of products and services are recorded when goods are shipped and services are rendered, or in accordance with contractual agreements.

(c) Inventories

Inventories of raw materials, work-in-process and finished goods are valued at the lower of cost (principally on the first-in, first-out method) and net realizable value.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. Government grants received to acquire assets are deducted from the cost of the related asset. Depreciation is provided using substantially the straight-line method over the estimated useful lives of the various classes of assets.

Gains or losses on the disposal of assets are included in earnings and the cost and accumulated depreciation related to these assets are removed from the accounts.

Repairs and maintenance costs are charged to operations as incurred and renewals and betterments are capitalized.

(e) Foreign exchange

The accounts of foreign subsidiary companies have been translated into Canadian dollars using the temporal method and as such at exchange rates prevailing at the balance sheet dates for monetary items, at exchange rates prevailing at

the respective transaction dates for non-monetary items and at average exchange rates prevailing during the year for revenue, costs and expenses, excluding depreciation and amortization which are translated at rates in effect when the assets were acquired. Unrealized translation gains and losses are deferred and realized translation gains and losses are included in the determination of earnings for the year.

(f) Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets of businesses acquired. Goodwill acquired prior to 1974 is considered to have continuing value and is not being amortized, except as indicated in Note 5. Goodwill acquired subsequently is being amortized over its estimated useful life on the straight-line method, not exceeding forty years.

(g) Income taxes

The Company follows the tax deferral method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

2. Inventories

	1978	1977
	(\$000)	
Raw material	\$4,178	\$4,291
Work-in-process	3,857	1,799
Finished goods	821	979
Contract costs net of progress billings	1,024	239
	\$9,880	\$7,308

3. Notes receivable and other assets

	1978	1977
	(\$000)	
Secured, interest free notes receivable		
Employee Incentive Stock Purchase Plan		
Officers and directors	\$ 435	\$ 380
Other employees	212	140
Mortgage and other employee loans	72	73
Notes receivable	280	360
Property held for sale, at cost	—	202
Other	371	302
	1,370	1,457
Less current portion	150	143
	\$1,220	\$1,314

4. Property, plant and equipment

Buildings and improvements with a net book value of \$573,000 are situated on leased land. The lease expires in 1981 at which time the lessor must offer to renew the lease or the lessor must purchase the buildings, including improvements, at the then appraised fair market value.

5. Goodwill

At the date of acquisition of Lewis Refrigeration Co., that company and its subsidiary companies had losses for income tax purposes available to be carried forward. The tax benefit of these losses is being credited to goodwill as realized. During 1978, \$324,000 of such benefits were credited to goodwill (1977 — \$257,000). As all such losses have now been fully utilized, no further benefit will be credited to goodwill.

6. Long-term debt

	1978	1977
	(\$000)	
Term bank loans, secured by a floating charge on all assets of the Company and bearing interest at 1% to 1¼% above the current prime rate, repayable on various terms	\$7,073	\$8,043
Notes payable		
Repayable to the Government of Canada in five annual instalments commencing in 1979 and non-interest bearing	587	587
Mortgage payable and other notes bearing interest at 4¼% to 9½%	1,345	358
Policy loans, secured by cash surrender value of life insurance policies bearing interest at 5% to 6%	43	39
	9,048	9,027
Less instalments due within one year	1,358	1,287
	\$7,690	\$7,740

7. Capital stock

The capital stock of the Company consists of preferred and common shares of which 3,141,469 common shares are issued at December 31, 1978 (1977 — 3,061,469).

Under the Employee Incentive Stock Purchase Plan, 80,000 common shares were issued during 1978 for a consideration of \$323,000 (market price at time of issue) evidenced by a promissory note,

repayable in varying amounts annually until 1988.

At December 31, 1978, 70,000 common shares have been reserved for future issuance at the market price at time of issue under the Employee Incentive Stock Purchase Plan.

8. Income taxes

The Company has losses for income tax purposes available to reduce future taxable income amounting to approximately \$650,000 at December 31, 1978, of which the tax effect on \$220,000 has been previously recognized in the financial statements. The losses must be utilized as follows; \$620,000 by December 31, 1981 and the balance by December 31, 1982.

In addition, the Company has available unrecorded investment tax credits of \$160,000 of which \$60,000 must be utilized by December 31, 1981, \$55,000 by December 31, 1982 and \$45,000 by December 31, 1983.

Provision for income taxes is approximately \$194,000 less than the amount computed by applying the statutory rates of tax to earnings before income taxes. The reduced rate of effective tax is a result of manufacturing and processing tax credits, the 3% inventory allowance and investment tax credits.

9. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year which were 3,067,168 (1977 — 3,061,469).

10. Pension plan

The Company contributes to pension plans available to a majority of its salaried and certain of its other employees. Pension costs charged against revenue during the period include \$362,000 for current and past service. The latest actuarial valuations of these plans indicated an unfunded past service liability of approximately \$1,098,000. Of this liability, \$900,000 is being funded over future years to 1989 and the balance to 1997.

11. Legal action

During 1976, the Company appealed a trial judgement in favour of the former auditors of CIMCO Limited in the Company's action claiming damages in connection with the purchase of CIMCO Limited. The Company's appeal was allowed to the extent that the Company was permitted to recover the expenses of its investigation incurred in connection with the purchase. A reference was directed to determine the amount of

these expenses, and the Company was awarded costs of the trial and the appeal. The amount of expenses recoverable had not been determined at December 31, 1978 and accordingly is not reflected in these financial statements.

12. Discontinued operations of subsidiary company

F. B. McFarren, Limited, a subsidiary company, was sold effective December 1, 1978 for a consideration of \$3,100,000. The net investment in this subsidiary company at the date of sale was \$288,000 and the Company had a gain of \$2,020,000 after the costs of disposition.

The operations of F. B. McFarren, Limited accounted for \$1,792,000 of sales and \$90,000 of net earnings for the year ended December 31, 1977, which are included in the 1977 comparative statement of earnings.

Viking Pump Company of Canada, Limited, a subsidiary company, was sold effective June 16, 1977 for a consideration of \$1,000,000 of which \$600,000 was received in cash and \$400,000 in a promissory note repayable in equal monthly instalments over a period of five years. This note bears an interest rate of 1% over the prime rate and is guaranteed by the purchaser.

The net investment in this subsidiary company at the date of sale was \$1,196,000 and the Company incurred a loss of \$205,000 including costs of disposition.

13. Segmented information

The financial information of the classes of business of the Company, as determined by the directors, is summarized below:

	Year ended December 31			
	1978		1977	
	(\$000)			
	Sales	Income before taxes	Sales	Income before taxes
Industrial refrigeration	\$37,705	\$2,247	\$37,565	\$2,080
Engineered products	22,074	2,211	20,121	1,836
Building products	—	—	1,792	160
	59,779	4,458	59,478	4,076
Common costs	—	1,352	—	1,467
	\$59,779	\$3,106	\$59,478	\$2,609

14. Remuneration of directors and senior officers

The remuneration of directors and senior officers paid during 1978 amounted to \$616,338 (1977 — \$502,132).

15. Other

The Company leases land, buildings and equipment under several non-cancellable operating leases which require minimum annual payments as follows: 1979 — \$198,000; 1980 — \$181,000; 1981 — \$142,000; 1982 — \$120,000; 1983 — \$60,000 and \$441,000 thereafter.

The Company is contingently liable to repay the forgivable portion of a loan from the Government of Canada to acquire certain equipment amounting to \$587,000 if conditions in the agreement are not met.

16. Comparative information

Certain comparative figures for 1977 have been restated to conform to 1978 financial statement presentation.

CORPORATE DIRECTORY

The Board of Directors

- *†R. G. Bremner
Toronto, Ontario
*Chairman of the Board
Acadia Forest Products
Limited*
- †P. F. Fenton, Jr.
Lennoxville, Quebec
*Chairman, Division of
Business Administration
Bishop's University*
- J. W. Fraser
St. Catharines, Ontario
*President
Canada Forgings, a Division
of Toromont Industries Ltd.*
- *‡N. B. Ivory
Montreal, Quebec
*President
Pembroke Management Ltd.*
- N. J. Lucas
Toronto, Ontario
*President & Chief Executive
Officer
Lewis-CIMCO*
- †C. A. Maase
Brockville, Ontario
*President
Maase Corporation Limited*
- *†W. A. McKenzie
London, Ontario
*President
Admac Holdings Ltd.*
- ‡W. C. Pitfield
Toronto, Ontario
*President
Pittfield Mackay Ross Limited*
- *†‡S. J. Sinclair
Toronto, Ontario
*Chairman of the Board &
Chief Executive Officer
Toromont Industries Ltd.*
- *Member of Audit
Committee
- †Trustee of Pension Funds
- ‡Member of Management
Resources Committee

Officers of the Corporation

S. J. Sinclair
*Chairman of the Board &
Chief Executive Officer*

J. W. Fraser
Vice-President

N. J. Lucas
Vice-President

A. L. Fagan, Jr.
*Vice-President, Finance
& Secretary*

Officers of Subsidiaries and Divisions

F. E. Brigham
*Executive Vice-President
Aero Tech Mfg., Inc.
395 West 1100 North
North Salt Lake, Utah 84054*

J. W. Fraser
*President
Canada Forgings, a Division
of Toromont Industries Ltd.
P.O. Box 308
Welland, Ontario
L3B 5P8*

N. J. Lucas
*President & Chief Executive
Officer
Allen Tank Limited
Allen Tank (London) Limited
Lewis-CIMCO
65 Villiers Street
Toronto, Ontario
M5A 3S1*

F. G. Lunn
*President
CIMCO Limited
65 Villiers Street
Toronto, Ontario
M5A 3S1*

R. F. Meyer
*President
Lewis-CIMCO Food Division
4370 - 150th Avenue N.E.
Redmond, Washington 98052*

J. Papakyriakou
*President
El-Met-Parts Division of
Toromont Industries Ltd.
47 Head Street
Dundas, Ontario
L9H 3H6*

Head Office

65 Villiers Street
Toronto, Ontario
M5A 3S1

Auditors

Touche Ross & Co.
Chartered Accountants

Transfer Agent and Registrar

Crown Trust Company
Toronto, Ontario
Montreal, Quebec

Common Shares

Listed on the Toronto Stock
Exchange and the Montreal
Stock Exchange

Bankers

The Toronto-Dominion Bank
The Mercantile Bank of Canada

